MINUTES OF THE

STUDY SESSION

GOVERNING BODY

Santa Fe, New Mexico

July 30, 2003

STUDY SESSION: 2:00 p.m.

A study session of the Governing Body of the City of Santa Fe, New Mexico commenced on this date at approximately 2:30 p.m. in City Hall Council Chambers.

Members Present:
Mayor Larry A. Delgado
Councilor Miguel M. Chavez [arriving 3:15]
Councilor Karen Heldmeyer
Councilor Matthew E. Ortiz
Councilor David Pfeffer
Councilor Rebecca Wurzburger

Water Finance Plan (20-year) Projected for Capital Projects, Revenues and Other Sources, Operations and Debt Service for Water Utility.

Finance Department director Kathryn Raveling referred to her memorandum of July 25 to the Mayor and Council, and three possible scenarios from a slide presentation to be made by Jason Mumm, financial consultant with Integrated Utilities Group, Inc. *[Submitted with these minutes as Exhibit "A" and "A.1" respectively.]*

Ms. Raveling said this presentation will also be made at the August 6 Public Utilities Committee meeting, where questions and scenarios raised tonight can be addressed more thoroughly.

Mr. Mumm stated that, while the Water Finance Plan is for 20 years, his three scenarios covered the 10-year period from 2003 to 2013. He said the 10 years following are somewhat fuzzier. He added that IUG has identified some projects, however, that will take the City beyond 20 years, and he would be glad to discuss them.

Mr. Mumm said the attempt is to balance the sources of uses of funds within the constraints the City has. He said these constraints include a bond covenant requiring 1.25 coverage, which the City never wants to go below again; and ensuring that revenues from rates cover enough money to recover O&M plus whatever allowance the City has year to year to replace assets.

Mr. Mumm noted that one of the provisions in the bond ordinance, which is a very valuable thing to have, allows the City to set up a rate stabilization account, which would allow the City to use accumulated funds in the account as part of its net revenues to increase debt service coverage in any given year. He added that, unfortunately, it could only be done one year at a time and not for two consecutive years — but basically, every other year, the City could use the fund balance as net revenue if it had to.

Mr. Mumm reviewed the following three scenarios, which were accompanied by graphs (see attached exhibit), and presented roughly in order of their probability of occurrence:

<u>Scenario 1: Low External Funding (City GRT at $54 million)</u>

Total External Funding	$54 million
Largest Source of External Funding	City GRT receipts ($54 million)
Total Capital Improvements	$201.8 million (2003 dollars)
Largest Source of CIP Funding	2004 Rev. Bonds; $120 million
Total Rate Increase (2003-2013)	85%
Average Annual Rate Increase	8.5% per year
Largest Annual Rate Increase	35.2% in 2004
Ending Fund Balance 2013	$61.7 million

<u>Narrative</u>: This scenario depends greatly on the City's ability to issue a substantial amount of revenue bonds (or other debt) to fund the planned capital improvements. The rate increases associated with this scenario are due primarily to the need for additional net revenues to support the added debt service.

<u>Scenario 2: Medium External Funding (Scenario 1 funding plus County GRT of $13.7 million)</u>

Total External Funding	$67.7 million
Largest Source of External Funding	City GRT receipts ($54 million)
Total Capital Improvements	$201.8 million (2003 dollars)
Largest Source of CIP Funding	2004 Rev. Bonds; $104 million
Total Rate Increase (2003-2013)	81%
Average Annual Rate Increase	8.1% per year
Largest Annual Rate Increase	29.5% in 2004
Ending Fund Balance 2013	$58.3 million

Narrative: The addition of the County GRT receipts would cut the need for debt funding roughly by the amount of GRT revenue received. This is an improvement over Scenario 1, but not a significant improvement. The impact on rates, for example, is close to the same for both.

Scenario 3: High External Funding (Scenario 2 plus State and Federal grants of $51 million)

Total External Funding	$118.7 million
Largest Source of External Funding	City GRT receipts ($54 million)
Total Capital Improvements	$201.8 million (2003 dollars)
Largest Source of CIP Funding	City GRT receipts ($54 million)
Total Rate Increase (2003-2013)	70%
Average Annual Rate Increase	7.0% per year
Largest Annual Rate Increase	8.2% in 2004-2006
Ending Fund Balance 2013	$31.6 million

Narrative: Due to the large amount and the opportune timing of Federal and State grant funding anticipated in this scenario, the need for debt is dramatically reduced. The Federal and State grants allow the City to "get over the hump" in capital needs coming up in the next few years, producing an optimal borrowing level far lower than that seen in scenarios 1 and 2.

Councilor Heldmeyer noted that the County passed the 1/4% GRT for joint City-County projects, and indicated a strong interest that, if the City Council were to pass a similar tax, they would like to see it also allocated only to joint projects. She commented that, given that the City's biggest project is the San Juan-Chama diversion, it probably won't be a problem — but whether they would want the other aspects of their GRT mirrored in the City's GRT might come up at that time.

Councilor Ortiz observed that none of the scenarios contemplated a Property Tax increase, and asked Ms. Raveling why that possibility was not given to the consultants to include.

Ms. Raveling responded that she had not heard anyone on the Governing Body suggest that the Property Tax be used for water, although that could be easily incorporated into the plan if the Councilors saw that as a realistic funding option.

Ms. Raveling clarified that there are two components of the Property Tax: one is for operations, and one is for debt service. She stated that an election would be required if the City wanted to issue general obligation bonds off of the Property Tax. She added, though, that there is another increment that only requires City Council action, but that increment can only be used for operations.

Councilor Ortiz said he thought the City was bonded to the limit on G.O. bonds, and Ms. Raveling clarified that the City has not had any G.O. bonds since 1987, when the last one was paid off, but has bonding capacity of about $80 million.

Councilor Ortiz asked what timing was involved in getting this on a ballot.

Ms. Raveling responded that the tax rate has to be to the State by September 1 so that they can verify the rates and make sure that it follows all of the Property Tax laws and yield control, etc. She said the State then gives that information to the County, which then incorporates it into their charges for property owners.

Councilor Ortiz asked if any of the GRT increments could be retired or shifted, or were all of them being used, and Ms. Raveling responded that the City is using them all.

Councilor Ortiz asked if the City is required to have the increments dedicated, and Ms. Raveling responded that some have requirements in accordance with the State Statute that enacted them, while others, such as the two 1/16% increments, could be used for general City purposes. She said the City chose to allocate that to Police and the GCCC, and that was done through ordinance.

Councilor Ortiz asked if there was any legal interpretation that would allow Lodgers Tax revenues to be used for any of these water projects, and Ms. Raveling responded that she did not think so. She said the money has to be related to advertising and promotion and tourism.

Councilor Ortiz noted that some Councilors believe that a green river would in fact attract tourism.

Ms. Raveling responded that, in those situations where the Council has suggested something out of the ordinary for Lodgers Tax, staff usually seeks a legal opinion. She noted that park improvements along the Santa Fe River were funded with Lodgers Tax monies after the City Attorney opined that it fit within Lodgers Tax criteria.

Councilor Ortiz asked if, were the City to do a G.O. issue and have a Property Tax, it could have a property tax put into place for a set period of time for a particular project and then retired after a certain number of years.

Ms. Raveling responded that this is common with Property Tax increments — if they are related to a bond issue, it retires when the bond issue is done.

Councilor Ortiz commented that he did not think the City could “continue to hold out for the public the illusion that we’re going to get significant federal grants because of the environment that we're in, politically as well as because of our economy. So I think we need to take a very hard look at all scenarios as they relate to funding these capital improvement projects, and that does include property tax."

Councilor Heldmeyer noted that one aspect of tourism in Santa Fe is that it creates a couple of weeks of much higher peak demand on utilities than the City ordinarily sees — specifically, Indian Market week and Spanish Market week. She noted that the City can use Lodgers Tax monies to pay for additional expenses incurred by having tourism.

Ms. Raveling responded that this was correct. She said it was limited to police, sanitation and fire.

Councilor Heldmeyer asked about capital improvements. For instance, she said, the City is having to increase the capacity of its water treatment plant to meet that peak demand. She asked if Lodgers Tax could be pledged towards that.

Ms. Raveling responded that this was not specifically mentioned in the statute or ordinance and would have to be reviewed by the City Attorney.

Councilor Heldmeyer noted that, according to a presentation that Ms. Raveling gave at the Public Works Committee, there was "no way" that any kind of property tax increase could be in place by September 1, 2003. She asked Ms. Raveling if there was a chance it could be in place within a year.

Ms. Raveling responded that, if that was the direction the Council wished to give, "we'd be aiming towards next September 1." She said the assessments would follow in November and April.

Mr. Buller stated that Mr. Mumm has asked if some members of the Council would care to sit on a task force needed for some public policy considerations on the next stages of the process.

Mr. Mumm noted that the cost of service study and rate restructuring project were discussed the last time he made a presentation, and that project was kicked off this morning with staff. He said part of that, and the rate restructuring scope of work, includes a lot of community involvement. He stated that one of the groups they want to form is a policy steering committee, which would provide guidance to staff and IUG as they go through the process on how to develop the rate structures.

Following discussion, it was agreed that the steering committee would have four City Council members (one for each district) plus one citizen from each district, plus staff.

Mr. Mumm said there would be three or four meetings between now and the end of the project, which would be towards the end of the year.

Councilor Ortiz asked staff to look into whether the City could get a ballot measure on for the March election to have the G.O. bonds in place by September 1, 2004; and if so, what needs to be accomplished between now and March to make that happen.

CONCLUSION OF SESSION

The Study Session concluded at approximately 3:15 p.m.

Approved by:

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Mayor Larry A. Delgado

ATTESTED TO:

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Yolanda Y. Vigil, City Clerk

Respectfully Submitted:

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Judith S. Beatty, City Council Reporter